



Joint Legislative Audit and Review Committee

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Impact of Full Card Simulcasting and Reduction in the Parimutuel Tax on the Horse Racing Industry Report 99-12

The legislature mandated the Joint Legislative Audit and Review Committee (JLARC) to evaluate the impact of legislative actions to assist Washington's horse racing industry, namely the 1997 enactment of Full Card Simulcasting and the 1998 reduction in Parimutuel Tax.

- We found that the primary result of these actions has been to assist Emerald Downs Racetrack in reducing the magnitude of its financial losses. The two other major racetracks in the state, Playfair Race Course in Spokane and Yakima Meadows, closed in 1998. Other measures of the health of the horse racing industry show mixed improvement.
- Other states have engaged in efforts similar to those enacted in Washington to assist their horse racing industries. The long-term effect of those efforts is unclear.
- Changes in the gambling environment in Washington, especially the growth of tribal casinos and enhanced card rooms, has increased the competition for the wagering dollar.
- The report concludes that the overall legislative goal of an economically viable horse racing industry has not been achieved. Moreover, allowing the 1998 Parimutuel Tax change to sunset would most likely worsen the financial status of the industry.
- We recommend maintaining the Parimutuel Tax at its current rate. Also, we recommend that the legislature identify a source of revenue different than the Parimutuel Tax to fund agricultural fairs.

Introduction

JLARC was mandated to conduct evaluations of the impact of legislation enacted in 1997 and 1998 to assist the horse racing industry in Washington State. ESSB 5762, enacted in 1997, changed state law regarding simulcasting of horse racing at the racetracks. E2SSB 6562, enacted in 1998, amended Parimutuel Tax provisions and temporarily reduced this tax by approximately 50 percent. It also terminated any tax distributions to the Fair Fund and State Trade Fair Fund and

included a 2001 sunset termination of this tax change.

When the legislature enacted ESSB 5762, it specified six criteria to be used in assessing the success of that legislation: actual increases in purses, race attendance, number of horses racing, and horse breeding. The law also directed JLARC to assess the extent that the major racetracks were capable of remaining "economically viable" given the provisions of the act and "the increase in competition for gambling

or entertainment dollars.” Additionally, the legislature asked for an assessment of the impact of the legislation on smaller, nonprofit racetracks.

We used financial performance data from the only major racetrack still operating, Emerald Downs, as the primary measure to assess the economic impacts of both legislative actions to assist Washington’s horse racing industry, particularly the effect of the 1998 change in the Parimutuel Tax rate.

Impact of Legislative Policy Changes to Assist Horse Racing Industry

The legislature’s actions to assist Washington’s horse racing industry has produced mixed results. Emerald Downs, as the primary thoroughbred racetrack in this state, is reporting an estimated financial loss for calendar year 1999. However, this data also indicates that Emerald Downs significantly improved its financial condition over calendar years 1997 and 1998 by reducing the magnitude of its losses from \$4.6 million in 1997 to an estimated \$800 thousand in 1999.

Playfair Race Course did not have a live racing season in 1998 due to economic difficulties, and ceased all thoroughbred horse racing operations in August of that year. Yakima Meadows Racetrack ceased operations on November 8, 1998, due to financial losses.

On a statewide level, parimutuel wagering increased from 1997 to 1998, but declined in 1999. Overall statewide attendance at the major racetracks was also down. Both of these negative trends were due to the lack of live racing at the racetracks in Spokane and Yakima. Additionally, other statewide measures of the health of the horse racing industry, as set out in ESSB 5762, such as the level of horse breeding and the number of horses currently racing, were still on a downward trend, though the “foal crop” is estimated to increase slightly in 1999.

Efforts in Other States to Assist Industry

The Washington Horse Racing Commission surveyed other states regarding efforts to assist their horse racing industries. The survey identified various state policies which were intended to enhance the “economic viability” of the horse racing industry in those states or regions. While other states have taken many of

the same steps as Washington to help their horse racing industries, the long-term effect of these efforts is unclear or mixed.

Economic Viability of Industry Within Gambling Environment

We assessed the economic viability of the major racetracks and the horse racing industry in the context of gambling or entertainment dollars. The horse racing industry’s share of Washington’s gambling dollar decreased from 63 percent in 1974 to 8 percent in 1996.

The enactment of a State Lottery, the introduction of tribal casinos, and the growth of “enhanced card rooms” have increased the competition for the gambling dollar within Washington. Moreover, the introduction of “Tribal Lottery Systems” and the potential expansion of the number of “enhanced card rooms” may also change the gambling marketplace in this state.

Goal of Healthy Horse Racing Industry Not Achieved in Washington

This report concludes that the legislative expectation of a healthy horse racing industry, by historical standards, has not been achieved. Emerald Downs has shown a smaller financial loss for 1999, but the two other major tracks remain closed. Although some progress has been made over previous years, the financial future of the industry is still in doubt.

Recommendations

The reduction of the Parimutuel Tax has lessened the losses at the Emerald Downs Racetrack and increased revenues to nonprofit tracks. In the current biennium, the general fund has replaced revenue once generated by this tax that was dedicated to agricultural fairs.

In the current context of the financial realities faced by the Emerald Downs Racetrack, we recommend that the 1998 legislative reduction in the Parimutuel Tax be continued in statute.

Also, in its deliberations on the sunset of the Parimutuel Tax reduction, we recommend that the legislature identify a source of revenue different than the Parimutuel Tax to fund agricultural fairs.